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# how hospitals approach price transparency

The issue of price transparency has become more prevalent in health care recently, but hospitals may have different views of the concept depending on their relative charge levels.

Price transparency has received an enormous amount of attention over the past two years with the publication of charge data for consumers and media reports about patients who received exorbitant hospital bills. The healthcare industry is responding, as illustrated by HFMA's *Price Transparency in Health Care* report, released this past spring.

An aspect of this complex issue worth exploring further is whether different hospitals approach price transparency differently based on their current charge positions (i.e., high or low). We surveyed 78 hospital finance leaders representing

185 hospitals this past April about their organizations' price transparency practices and plans. We then linked the survey results to our database of hospital charges to identify correlations between the organizations' price transparency approaches and their overall charge positions.

Every survey respondent said challenges related to price transparency lie ahead, with most reporting that the current practice at their hospital or health system is to reveal charges only when specifically asked by a patient (see the exhibit on page 59).

## Taking a Closer Look

Most respondents (62 percent) said price transparency is a strategic initiative for their hospitals in 2014. A closer look at the survey results discloses eight key insights regarding hospitals' specific approaches to price transparency relative to their charge positions.

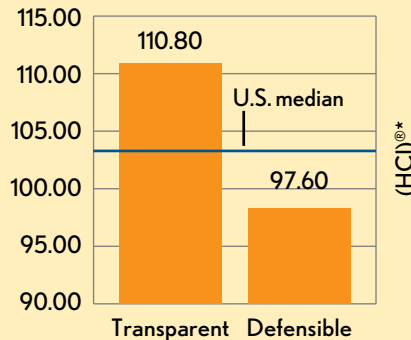
**Transparency and defensibility are both vital.** In HFMA's *Price Transparency in Health Care* report ([hfma.org/transparency](http://hfma.org/transparency)), price transparency is defined as "readily available information on the price of healthcare services that—together with other information—helps define the value of those services and enables patients and other care purchasers to identify, compare, and choose providers that offer the desired level of value."

## AT A GLANCE

- > A survey of finance leaders found that hospitals with lower charges were more likely than other hospitals to emphasize making prices defensible rather than simply transparent.
- > Finance leaders of hospitals with higher charges were more likely to express concern that price transparency would cause a reduction in hospital revenue by forcing them to lower charges.
- > Those respondents said commercial payers likely will have to agree to renegotiate contracts for price transparency to be a financially viable proposition.

When asked, “Are you more concerned with your hospital’s prices being transparent or defensible?” 23.6 percent of respondents said *defensible* and 14.4 percent said *transparent* (with 50 percent saying both). The respondents more concerned with transparency came from high-charge hospitals, while those more concerned with defensibility came from low-charge hospitals.

#### CHARGE POSITION VERSUS CONCERN WITH TRANSPARENT/DEFENSIBLE PRICES



\* The U.S. hospital median Hospital Charge Index® (HCI) for 2012 was 103.6. The HCI is a facility-level metric that compares the Medicare charge per discharge and Medicare charge per visit (both adjusted for case complexity and wage index differences) with the U.S. medians for each value.

Source: Cleverley & Associates, 2014. HCI data from a proprietary database of hospital charges. Survey data from an April 2014 survey of 78 hospital finance leaders representing 185 hospitals. Used with permission.

When survey respondents were asked what price transparency meant to them, 76 percent hit on the HFMA definition in the broadest sense: making charges available to the public. However, almost as many (73 percent) equated transparency with providing a reasonable justification for prices, which we would define as defensibility of the price structure.

It appears many providers see transparency and defensibility as going hand in hand. In fact, nearly two-thirds of the respondents said they believe transparency and defensibility are the same thing, or at least equally important.

**Hospitals concerned with defensible prices have lower charges.** To evaluate the charge positions of the hospitals we surveyed, we used the Hospital Charge Index® (HCI). This facility-level metric

compares a hospital’s Medicare charge per discharge and Medicare charge per visit (both adjusted for case complexity and wage index differences) with the U.S. medians for each value. For survey respondents who represented a health system, we used the average HCI score for all hospitals in that system as a single value to avoid skewing the HCI averages in our results toward large systems. Thus, each respondent was represented by one value when the HCI averages were compiled for each question.

A high HCI score indicates a higher relative charge position. The average score for our survey group was 103.7, which corresponds closely with the U.S. hospital median score of 103.6 for 2012.

In our stratification of high- and low-charge hospitals, we found that the group of respondents who stated they were most concerned with making prices *defensible*—rather than simply transparent—had an average HCI of 97.6, while the group most concerned with only transparency had an average HCI of 110.8. (Those who were equally concerned about transparency and defensibility had an average HCI of 106.8.)

More than half the respondents said they could defend and explain their organization’s charges if those charges were made public (i.e., transparent), while 16 percent said they could not and 28 percent were unsure. Interestingly, we found that the average HCI of hospitals whose finance leaders said they could not defend charges was 112.3, indicating that leaders at higher-charge hospitals are more likely to be uncomfortable with the prospect of trying to explain their charge positions.

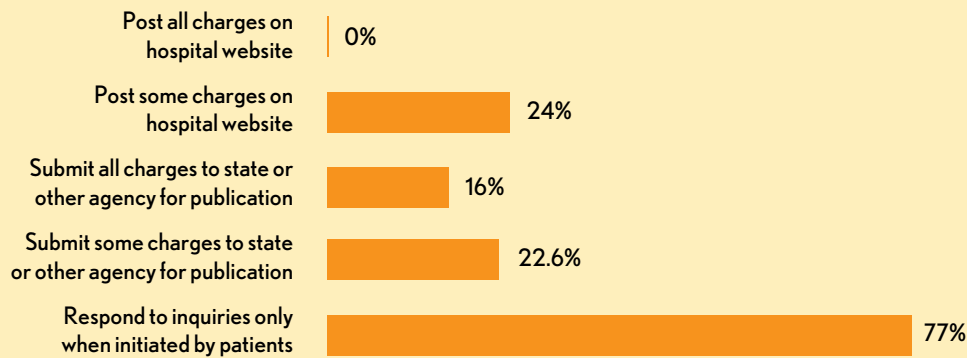
Respondents cited the following when asked what makes a pricing strategy defensible:

- > Charges are in direct relation to cost (72 percent).

#### BEST PRACTICES FOR PRICE TRANSPARENCY

A blue-ribbon task force led by HFMA reached consensus on ways to help consumers gain access to clear and easy-to-understand price information. Learn more at [hfma.org/transparency](http://hfma.org/transparency).

## HOW HOSPITALS COMMUNICATE PRICES TO PATIENTS



Source: Cleverley & Associates, 2014. Data from a survey of 78 hospital finance leaders representing 185 hospitals in April 2014. Used with permission.

In our stratification of high-charge and low-charge hospitals, we found that the lowest-charge group, which had an average Hospital Charge Index<sup>®</sup> score of 90.4, consisted of representatives of hospitals that make some charges available on their websites.

- > Charges are in line with other comparable hospitals (66 percent).
- > Charges are in line with hospitals in the same market (61 percent).
- > Charges generate an appropriate level of net revenue for reinvestment and operational enhancements (50 percent).

In sum, administrators take a variety of factors into consideration (e.g., cost, market position, financial viability) when defending their price position.

**Communication of charges primarily occurs only upon request.**

The Affordable Care Act (ACA) amended the Public Health Service Act with a provision requiring hospitals to make public a list of their standard charges for items and services. The interpretation of this rule has been somewhat unclear, but it was revisited in the FY15 inpatient prospective payment system proposed rule issued by the Centers for Medicare & Medicaid Services:

Hospitals are responsible for establishing their charges and are in the best position to

determine the exact manner and method by which to make those charges available to the public. Therefore, we are providing hospitals with the flexibility to determine how they make a list of their standard charges public. Our guidelines for implementing Section 2718(e) of the Public Health Service Act are that hospitals make public either a list of their standard charges (whether that be the chargemaster itself or in another form of their choice), or their policies for allowing the public to view a list of those charges in response to an inquiry.

In our survey, we found that 77 percent of hospitals communicate prices for services only when asked (see the exhibit above). Finance leaders who said their hospitals make some charges available on their websites represented the lowest-charge group, with an average HCI of 90.4. Whether these hospitals post charges on their websites because their charges are low compared with peers or whether their charges are kept low because patients have easy access to

price data is debatable. But there appears to be some correlation between low prices and ease of patient access to price information (patients would have a much easier time searching on a hospital’s website than finding price data published by a state or other agency).

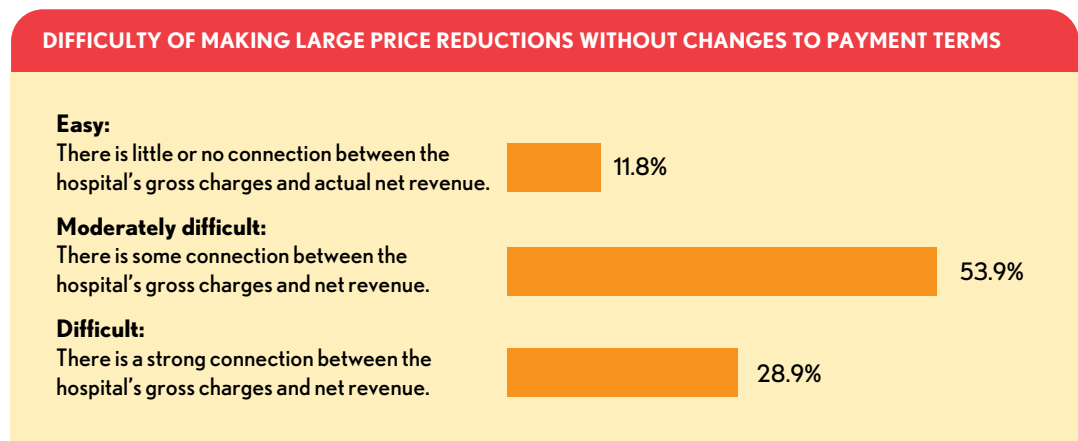
**An eye toward price transparency during rate setting correlates with lower charges.** When asked whether transparency is a factor in planning yearly rate adjustments, 71 percent of respondents said “yes.” Most striking, those who responded in the affirmative represented hospitals with an average HCI of 100.6, compared with 111.7 for hospitals represented by those who said they make rate adjustments without transparency in mind. A conclusion could certainly be drawn that considering transparency when planning annual rate adjustments helps to keep prices lower.

**High-charge hospitals believe transparency will force them to lower prices.** Interestingly, 8 percent of survey respondents said price transparency means “lowering charges.” Although this per-

centage was small, the charge position of these respondents’ hospitals was quite high: Those choosing this answer represented hospitals with an average HCI of 119.3.

Essentially, leaders at hospitals with significantly higher charges believe they will need to lower prices as part of their transparency initiatives. This finding may point to a concerted movement by the highest-priced hospitals to begin to decrease rates.

**High-charge hospitals are concerned with the financial impact of lowering charges through transparency initiatives.** We asked respondents to consider how hard it would be to make *transformational pricing changes*—a term we define as large price reductions—at their hospitals and health systems, given the associated financial impact (see the exhibit below). Only 12 percent said such changes would be easy and that there was “little or no” connection between gross charges and actual net revenue at their organizations. A majority—54 percent—said transformational pricing changes would be “moderately difficult” to



Source: Cleverley & Associates, 2014. Data from a survey of 78 hospital finance leaders representing 185 hospitals in April 2014. Used with permission.

Nearly 40 percent of survey respondents also said commercial payers will need to be involved in contract renegotiations to help make price transparency financially feasible.

implement because there is “some” connection between gross charges and net revenue.

Respondents from the highest-charge facilities were most likely to say transformational pricing changes would be difficult to achieve because of a higher percentage of gross-charge-sensitive contracts. Although high-charge hospitals may believe they need to lower charges when striving for transparency, the financial reality may prohibit those providers from making the necessary changes.

**Commercial payers will need to be involved to accommodate new pricing policies.** The reality for many providers is that they cannot drastically reduce prices without sacrificing their organizations’ financial viability. The math is simple: If an entire contract is discount-of-charge—or a portion is through a carve-out, lesser-of, or outlier area—then reduced charges will result in reduced payments.

Commercial payers therefore should be involved in negotiating new pricing policies that do not leave hospitals at a disadvantage. Nearly 40 percent of respondents to our survey said commercial payers will need to help make price transparency a reality through contract renegotiations. Not surprisingly, we found that leaders at the highest-charge hospitals felt most strongly about this response.

Charge modeling could be conducted to demonstrate to the payer the proposed reductions, amended contract terms, and resulting payment neutrality. Again, the math is simple. Getting all parties to the table to accommodate the change is harder, but the result could be significant for hospitals, communities, and the industry.

**Price transparency is going to take time.** About 80 percent of respondents said their hospitals are

## Preparing for Price Transparency: A 5-Point Checklist

### **Secure board and executive team support.**

Working to implement price transparency will require dedication of organizational time and resources as well as communication with external stakeholders; therefore, it is important that leaders fully support the effort.

**Identify a reasonable starting point.** Lower-priced, high-demand services will likely be of greatest interest to price-sensitive patients and are a good starting point for transparency efforts.

### **Consider how care purchasers will access the information you provide.**

Price information might be publicly posted on a website, made available on a password-protected website (e.g., for health plan members), or made available in response to an inquiry submitted online or by phone. However your organization plans to provide access to price information, make sure patients can easily find out how to get it.

**Identify other information sources that will help patients assess the value of the services you provide.** Consider, for example, linking price information to relevant and publicly reported quality or patient safety scores.

**Be prepared to explain healthcare pricing.** Prices vary for different care purchasers and payers. As prices become more transparent, be prepared to explain why prices may differ.

Source: HFMA Price Transparency Taskforce, [hfma.org/transparency](http://hfma.org/transparency).

still at least 12 to 24 months away from achieving transparency—and half of that group sees the initiative as a long-term project that needs more discussion.

Another significant issue appears to be how to make price information relevant to the public. This communications challenge involves converting the clinical terminology detailed in a hospital’s chargemaster into common and meaningful descriptions that laypeople can comprehend.

In fact, 62 percent of respondents said creating meaningful and relevant information out of the data is the greatest challenge of complying with or creating a price transparency policy. Meanwhile, 29 percent thought the biggest challenge is educating the media and public. Very few respondents were concerned about actually compiling and publishing the data.

Respondents also were worried about the costs of creating and maintaining a price transparency strategy. The top costs identified were:

- > Internal administrative hours (65 percent)
- > Public relations (63 percent)
- > Increased pressure to reduce charges (58 percent)
- > Additional software/IT investments (47 percent)
- > Additional consulting services investments (36 percent)

Those who expressed concern about increased pressure to reduce charges had the highest average HCI: 111.5.

### Thinking Strategically About Price Transparency

So why make the effort? When we asked what is driving the push for price transparency, the top responses were:

- > High-deductible health plans (72 percent)
- > Public pressure (63 percent)
- > Media scrutiny (57 percent)
- > The ACA (51 percent)

There is good reason to interpret these responses, taken as a whole, to mean “patients.” After all, patients as consumers are shouldering a greater portion of the costs of their care and, thus, increasingly are demanding accurate price estimates that can help them make meaningful comparisons regarding cost and value.

Our challenge as an industry is to make health-care prices more reasonable and explainable. We agree with the many stakeholders who believe this complex endeavor will, ultimately, take time. However, we are encouraged to see providers thinking strategically about ways to make pricing more accessible and understandable to the public. As busy as administrators are these days, we were appreciative and amazed that so many were willing to engage on this topic via our survey. That alone indicates that hospitals are serious about making positive movement on this issue. ●

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## 2014 PRICE TRANSPARENCY SURVEY RESULTS

1. What does "price transparency" mean to you? (check all that apply)	Response Ratio	Average HCI
Making your charges available to the public	76.0%	105.23
Complying with federal regulations	48.0%	103.80
Complying with state regulations	46.6%	102.00
Lowering charges	8.0%	119.30
Avoiding negative publicity	29.3%	104.70
Providing a reasonable justification of current pricing	73.3%	105.80
<b>2. Is price transparency a strategic initiative for your hospital in 2014?</b>		
Yes	61.8%	103.50
No	38.1%	103.90
<b>3. Is price transparency a factor you consider when planning yearly rate adjustments?</b>		
Yes	71.0%	100.60
No	26.3%	111.70
<b>4. What impact will price transparency have on your commercial payer relationships?</b>		
No impact	7.8%	86.90
Minimal impact	26.3%	107.00
Significant impact	23.6%	93.70
Uncertain	42.1%	111.40
<b>5. How will price transparency affect your overall pricing and budgeting strategies? (check all that apply)</b>		
More attention paid to charges at other hospitals in our market	56.0%	107.70
May need to lower charges for some procedures	58.6%	106.90
Commercial payer terms will need to be renegotiated to accommodate new charge policies	38.6%	110.20
Increase cost-management initiatives	38.6%	106.80
No impact	12.0%	96.30
Uncertain	21.3%	109.20
<b>6. How do you currently communicate prices to your patients? (check all that apply)</b>		
Make all of our charges available on our hospital web site	0.0%	
Make some of our charges available on our hospital web site	24.0%	90.40
Submit all of our charges to state or other agency for publication	16.0%	103.10
Submit some of our charges to state or other agency for publication	22.6%	106.20
Respond to inquiries only when initiated by patients	77.3%	103.90
<b>7. What do you feel is driving the push for price transparency? (check all that apply)</b>		
The media	56.5%	105.10
The Affordable Care Act	51.3%	101.60
Public pressure	63.1%	108.90
High-deductible plans	72.3%	104.10
Lawsuits	9.2%	117.00

## COVER STORY

<b>8. What is the single greatest challenge of complying with or creating a price transparency policy?</b>		
Educating the public/media	28.9%	102.50
Compiling the data	7.8%	89.50
Creating meaningful and relevant information with the data	61.8%	105.60
<b>9. What costs do you foresee associated with creating and maintaining a price transparency strategy? (check all that apply)</b>		
Managing public relations	62.6%	106.90
Internal administrative hours	65.3%	106.20
Additional software/IT investment	46.6%	99.50
Additional consulting services investment	36.0%	102.30
Pressure to reduce charges	58.6%	111.50
<b>10. Are you more concerned about your hospital's charges being transparent or defensible?</b>		
Transparent	14.4%	110.80
Defensible	23.6%	97.60
Both	50.0%	106.80
What's the difference?	11.8%	94.60
<b>11. If you make your charges public (i.e., transparent), are you confident that you can defend and explain those charges when compared with other facilities?</b>		
Yes	55.2%	103.00
No	15.7%	112.30
Not sure	27.6%	99.60
<b>12. What makes a pricing strategy defensible? (check all that apply)</b>		
Charges are in direct relation to costs	71.6%	104.60
Charges are in line with other hospitals in your market	60.8%	103.80
Charges are in line with other "like" hospitals	66.2%	102.00
Charges are determined to generate appropriate level of net revenue for reinvestment and operational enhancements	50.0%	104.30
<b>13. Achieving your ideal picture of "price transparency" at your organization will be:</b>		
Easy: We are there or will be there within the next 12 months	18.4%	111.50
Moderately difficult: We are currently working on this issue and will have in place in the next 12 to 24 months	39.4%	96.70
Difficult: We need more thought around this issue and feel this is a long-term process	39.4%	108.10
<b>14. Transformational pricing initiatives (e.g., large charge reductions) without changes to payment terms at your organization would be:</b>		
Easy: There is little or no connection between our gross charges and actual net revenue	11.8%	112.10
Moderately difficult: There is some connection between our gross charges and net revenue that would make large reductions difficult financially	53.9%	98.30
Difficult: Our gross prices are highly connected to net revenue	28.9%	114.10

Source: Cleverley & Associates, 2014. Survey data from an April 2014 survey of 78 hospital finance leaders representing 185 hospitals. HCI data from proprietary database of hospital charges. Used with permission.